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TAP - Q4 2011 Molson Coors Brewing Company Earnings Conference Call

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OVERVIEW:

TAP announced 4Q11 underlying after-tax income of \$176m or \$0.97 per share.



CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

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Mark Swartzberg *Stifel Nicolaus - Analyst*

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James Watson *HSBC - Analyst*

Bryan Spillane *Bank of America - Analyst*

PRESENTATION

Operator

Welcome to the Molson Coors Brewing Company 2011 fourth quarter and year-end earnings conference call. Before we begin, I will paraphrase the Company's Safe Harbor language. Some of the discussion today may include forward-looking statements. Actual results could differ materially from what the Company projects today, so please refer to its most recent 10-K and 10-Q filings for a more complete description of factors that could affect these projections. The Company does not undertake to publicly update forward-looking statements, whether as a result of new information, future events, or otherwise. You should not place undue reliance on forward-looking statements which speak only as of the date they are made.

Regarding any non-US GAAP measures that may be discussed during the call and from time to time by the Company's executives in discussing the Company's performance, please visit the Company's website, www.MolsonCoors.com, and click on the financial reporting tab of the Investor Relations page for a reconciliation of these measures to the nearest US GAAP results. Also, unless otherwise indicated, all financial results the Company discusses are versus the comparable prior year period and in US dollars.

Now, I would like to turn the call over to Peter Swinburn, President and CEO of Molson Coors.

Peter Swinburn - *Molson Coors Brewing Co - President and CEO*

Thank you, Martina. Hello and welcome, everybody, to the Molson Coors earnings call. Thanks for joining us today. With me on the call is Stewart Glendinning, Molson Coors CFO, Dave Perkins, CEO of Molson Coors Canada, Tom Long, CEO of Miller Coors, Mark Hunter, CEO of Molson Coors UK, Kandy Anand, President of Molson Coors International, Sam Walker, Molson Coors Chief Legal and People Officer, Zahir Ibrahim, Molson Coors Controller, and Dave Dunnewald, Molson Coors VP of Investor Relations.

On the earnings call today, Stewart and I will take you through highlights of our fourth quarter and full-year 2011 results for Molson Coors Brewing Company, along with some initial perspectives on 2012. For Molson Coors, the fourth quarter was a positive finish to a challenging year with underlying after-tax income up more than 42%, earnings per share up 47%, and net sales growth of 12%. The fourth quarter benefited from solid pricing, an additional week in our fiscal 2011 calendar, and cycling comparatively weak quarterly results the year before.

For the full-year, net sales increased 8% and underlying earnings per share grew nearly 6%, driven by positive pricing, cost reduction initiatives, favorable foreign currency movements, and an additional trading week. Our focus in 2011 continued to be on the three pillars of our growth



strategy, namely, to grow profitably in our core businesses through brands and innovation, to grow in new and emerging markets, and when it meets our strict shareholder return criteria, to grow through M&A. In 2011, our primary focus remained on the first of these pillars, as we continued to invest in our key brands and fill our innovation pipeline. Increased sales, pricing, and underlying earnings tell us we are moving in the right direction.

In Canada during 2011, we grew volume and profit in the back half of the year to improve performance of Coors Light, Molson Canadian, and our above premium portfolio, highlighted by the launch of Rickard's Blonde and the expansion of Creemore and Granville Island into new markets. Our Canada team secured the key National Hockey League sponsorship property which is adding visibility to our brands. We introduced Molson Canadian 67 Sublime and Miller Chill Lemon, and we expanded Molson Canadian 67 into Quebec and Molson M into Ontario and the West.

In the US, Coors Light significantly outperformed the premium light segment in both share and average price, and became the second largest beer in the market. The Blue Moon brands continue to lead the craft beer segment with more than 20% growth. Leinenkugel's also grew at a double-digit rate. These brands drive the Tenth and Blake business which is focused on our craft and import brands. We introduced value-driving innovations including Coors Light super cold activation and expanded the Miller Lite Aluminum Pint, Leinenkugel's Summer Shandy, Blue Moon Seasonal, and Batch 19 all into new markets. However, the Miller Lite performance was a disappointment.

In a very challenging UK market, we gained market share and in the first half of the year successfully completed a major SAP system implementation, and then focused on brands and innovation in the second half, with the result being accelerated share performance. We acquired the Sharp's Brewery and Doom Bar brand early in 2011, added the Modelo brands to our portfolio, and relaunched Carling and Coors Light in the second half. We introduced aluminum bottles for Carling, Coors Light, and Caffrey's and we had a limited launch of Carling Chrome and Animee. Also in the second half of 2011, we initiated a multi-year redevelopment program for our UK brewing network which will support brand growth, innovation, and operations efficiencies in the years ahead.

The second pillar of our growth strategy, our approach to international organic growth, is based upon disciplined market development, strong strategic partnerships, and sound investments in our brands. Specifically, in 2011, we expanded our Cobra partnership to include the Indian subcontinent which now gives us global control of this promising premium brand. Together with our partner, Obolon, we set up a commercial venture to sell Carling in the Ukraine, Eastern Europe's second biggest beer market and this venture is off to a very strong start.

We continue to experience depressed markets, cost inflation, and tough pricing environments, exacerbated in the UK by punitive excise tax increases. This is a situation we do not see improving for some time.

In M&A, the Sharp's acquisition has gone exceptionally well with the Doom Bar brand growing strongly and now it is in the top three UK on-premise cask ale brands. The India partnership is also off to a solid start.

These pillars of our growth strategy, paired with disciplined cash use and cost management, are designed to drive profit, cash flow, and long-term value to our shareholders. During the past four years, we have used our cash to capitalize on growth opportunities, strengthen our balance sheet, and double our dividends per share. In 2011, we further strengthened our balance sheet by settling one-fourth of our cross currency swaps for approximately \$100 million, and paid down the outstanding Ontario beer store debt with \$94 million in cash. In addition, following the announcement of our \$1.2 billion stock repurchase plan in August, we repurchased approximately 7.5 million class B shares by year end. Stewart will provide more details in a few minutes.

Beyond our growth pillars, in 2011, our Resources for Growth Two cost reduction program delivered \$60 million in savings for the year and a total of \$126 million in savings since the program began two years ago. And in the area of corporate social responsibility, Molson Coors was selected for inclusion in the Dow Jones Sustainability Index which is the most recognized global benchmark of sustainability among global corporations. We were one of only six North American food and beverage companies chosen to be in this index.

So with that as an overview, I'll now turn it over to Stewart to give fourth quarter financial highlights and perspective on our 2011 cash generation and uses. Stewart, over to you.



Stewart Glendinning - *Molson Coors Brewing Co - CFO*

Thanks, Peter. Hello, everyone.

In the fourth quarter financial highlights worldwide beer volume for Molson Coors increased 2.6%, on a 53-week basis. Excluding the 53rd week in our fiscal 2011, worldwide volume decreased 0.1%, driven by decline in US volume which was largely offset by volume growth in our UK, international, and Canada businesses. Total Company net sales increased 12.2% in the fourth quarter, primarily driven by the 53rd week in 2011, along with higher sales in the UK, international, and Canada businesses. On the bottom line, underlying after-tax income of \$176 million, or \$0.97 per diluted share, was 42.4% higher than a year ago, driven by improved financial performance in each of our businesses. For our total Company, the 53rd week increased 2011 worldwide sales volume by about 300,000 hectoliters and boosted pre-tax profit by an estimated \$9 million.

It is important to note that our fourth quarter underlying earnings excludes some special and other non-core gains, losses, and expenses that net to an \$8.6 million pre-tax charge. These adjustments to our US GAAP results are described in detail in the earnings release we distributed this morning.

In segment performance highlights for the fourth quarter, starting with Canada, underlying pre-tax income, increased 22.2%, to \$129.9 million, driven by increased net pricing, MG&A expense reductions, the addition of NAB contract brewing income this year, and the additional week in our fiscal 2011. The extra week in the fourth quarter added about 140,000 hectoliters to Canada sales volume and an estimated \$12 million to pre-tax profits. This benefit was slightly offset by the \$2 million impact of a 1% year-over-year decrease in the Canadian dollar versus the US dollar.

Sales-to-retail, or STRs, increased 7.1% in the fourth quarter, largely due to the additional sales week in 2011. Excluding the extra week, comparable fourth quarter STRs increased 0.2%. Our Canada market share declined approximately 0.5 share point from a year ago. Net sales per hectoliter increased nearly 4% in local currency, with more than a third of this driven by continued positive pricing, and the remainder due to the addition of NAB contract brewing sales this year.

Cost of goods sold per hectoliter increased 6% in local currency with about half of the increase due to the cost of brewing beer under our NAB contract and the remainder driven by higher distribution costs and input inflation. These factors were partially offset by RFG2 savings in the quarter. Marketing, general, and administrative expense decreased 5% in local currency, largely due to lower employee incentive compensation, and other overhead expenses in the quarter.

Moving to our US segment, underlying pre-tax income increased 27.2%, to \$85.5 million in the fourth quarter, driven by higher pricing and the results of cost savings initiatives, which more than offset the impact of lower volume and higher input inflation. MillerCoors domestic STRs declined 3.3% on a trading day adjusted basis, while domestic sales to wholesalers declined 1.6%, with the variance to STRs driven by the quarterly timing of shipments last year. Domestic net revenue per hectoliter which excludes contract brewing and Company-owned distributor sales, grew 2.9%, primarily due to front line pricing. Cost of goods sold per hectoliter increased 0.9% in the quarter, driven by higher freight, packaging innovations, brand mix, and commodity inflation, partially offset by continued cost savings. MG&A expense decreased 3.7% for the quarter.

In our UK business, fourth quarter underlying pre-tax income increased 29.4%, to \$34.8 million, due to overall higher volumes, and lower pension costs, partly offset by lower net pricing and higher marketing investments. These results reflect minimal profit impact from our 1% depreciation of the British pound versus the US dollar, and the additional week in 2011. STRs increased 16% reflecting a strong performance in both the on-premise and the off-premise channels, customer buy-in ahead of our 2012 price increase, and the cycling for UK weather in 2010, and the approximate 165,000 hectoliter benefit of the additional week in 2011. Excluding the impact of the extra week, STRs increased 9%. With overall industry volumes decreasing an estimated 1.4% from a year ago, this represented share growth for us in both the on-premise and the off-premise.

Own brand net sales per hectoliter decreased 1% in local currency, driven by 6% lower net pricing, largely offset by the mixed benefit of adding the higher priced Modelo brands. Net pricing in the quarter was impacted by an increasingly competitive market dynamics and adverse customer and PAC mix in the off-premise, partially offset by positive pricing in the on-premise. Total cost of goods sold per hectoliter decreased approximately 2% in local currency, driven by fixed cost leverage from higher volumes and cost savings, partly offset by input inflation and the addition of the



Modelo brands. Marketing, general, and administrative expenses increased nearly 2% in local currency, due to higher marketing investments, and the impact of the 53rd week in 2011, partly offset by lower employee incentive and pension expense.

Now, to help improve visibility into our international business, we began separating results for these operations from our corporate expenses for the first time in the fourth quarter. The international segment posted an underlying pre-tax loss of \$7.5 million in the fourth quarter. And this \$2.2 million improvement from a year ago was driven by increased sales of higher margin brands this year. International volume increased 51% due to the addition of the Modelo brands in Japan, along with the growth of Carling in Europe and Coors Light in Latin America and China. Net sales per hectoliter increased 24% and cost of goods sold per hectoliter grew 16%, primarily due to sales mix improvement, including higher sales of Zima and Modelo brands in Japan, and Carling in Europe. International MG&A increased 35%, driven by investments in our Ukraine, India, China, Spain, and Russia businesses.

Meanwhile, underlying corporate expenses totaled \$52.3 million pre-tax for the fourth quarter. This reduction of \$3.9 million was primarily due to lower employee incentive compensation. The 53rd week in 2011 added approximately \$3 million of interest and overhead expense in the fourth quarter.

Now, moving beyond the fourth quarter operating performance, underlying free cash flow for 2011 was \$635 million, down 31% from 2010, and \$115 million below our original goal for the year, which was \$750 million, plus or minus 10%. While most of the free cash miss was due to timing of working capital, the result was nonetheless disappointing. Our 2011 cash generation was made up of the following, \$868 million of operating cash flow, including \$458 million from MillerCoors, plus \$20 million of proceeds from asset sales in the Foster's swap unwind, minus \$235 million of capital spending, and minus \$17 million of net cash invested in MillerCoors. The lower underlying cash for 2011 was primarily due to one-time cash sources in 2010, and higher capital spending, \$58 million, plus MillerCoors, as well as higher cash taxes, of \$24 million, and higher working capital this year, largely due to timing.

Consistent with our usual practice, we plan to share our 2012 underlying free cash flow goal with you during our Investor Day in New York next month. Regarding cash uses in 2011, Peter mentioned our stock buybacks and partial cross currency swap settlement in the Ontario beer store debt paydown. Totalling more than \$500 million, these cash uses strengthened our balance sheet, improved our debt ratios with the rating agency, and reduced our share count at an attractive price. We ended the year with \$884 million of cash on our balance sheet, and here are the details regarding the buyback.

During the fourth quarter, we bought back approximately 1.2 million class B common shares for \$50 million in cash. Since the inception of the program in August 2011, we have repurchased approximately 7.5 million shares for \$321.1 million, which is approximately 27% of the total program and just over 4% of our outstanding class B shares. As originally announced, we have been implementing this program opportunistically. As always, all potential cash uses will be vetted by our disciplined process and must meet our firm criteria of providing a clear view to building long-term shareholder value.

Looking forward, regarding our 2012 guidance, we expect 2012 MG&A expense in corporate to be approximately \$115 million. This would represent a \$12 million increase from 2011, driven by higher incentive compensation and project expenses. We expect full-year 2012 corporate interest expense to be approximately \$100 million, based on current foreign exchange rates, a reduction of \$8 million from 2011.

Working to -- turning to our effective tax rate, we expect a full-year underlying rate for 2012 in the range of 17% to 21%, assuming no further changes in tax laws. While we continue to see our normalized long-term tax rate in the range of 22% to 26%, we anticipate that it will take a few years to move up to that range. Our 2012 capital spending outlook is approximately \$200 million for the full year. This \$35 million decrease from last year is driven by lower capital spending in Canada, following the installation of the new high speed can line in our Montreal brewery. Note that this capital spending guidance excludes the US.

Regarding our defined benefit pensions for 2012, our preliminary view is that UK pension expense will increase about \$10 million. That means from \$7 million of pension income in 2011 to about \$3 million of pension expense this year. In Canada, we anticipate that our 2012 pension expense will increase approximately \$20 million, from 2011. In the US, we expect a decrease of about \$15 million on an underlying basis, which excludes a \$22 million special charge in the third quarter of 2011, related to MillerCoors assuming a multi-employer pension plan. That's at 42%.



Taking these together, our total Company 2012 pension expense is expected to be approximately \$80 million including our portion of the MillerCoors pension expense, which is about \$15 million higher than 2011 on an underlying basis. This increase is driven by current long-term interest rates which are now lower than at any point in the past 60 years. Meanwhile, we expect total cash contributions to our pensions to be in the range of \$100 million to \$120 million this year, up from \$59 million in 2011. This is due to increased contributions in Canada and the US.

Looking ahead, our cost outlook, in Canada, for 2012, we expect our all-in costs of goods sold to increase at a mid single-digit rate per hectoliter in local currency, due to input inflation and higher distribution and pension costs, as well as the cost of brewing NAB contract volume, which was largely absent from our first half results last year. In the US, we forecast COGS per hectoliter to increase in a low single-digit rate in 2012. In the UK, we expect our full-year COGS per hectoliter to grow at a high single-digit rate in local currency, with about half of the increase due to input inflation, 40% due to sales mix, and 10% from one-time expenses related to our UK brewery improvements this year. The incremental brewery expenses will total about \$8 million in 2012, primarily in the first half of the year and we expect these improvements to provide significant returns in the years ahead.

At this point, I'll turn it over to Peter for total Company and regional outlook, wrap up, and the Q&A. Peter?

Peter Swinburn - *Molson Coors Brewing Co - President and CEO*

Thanks, Stewart.

So we expect 2012 to be as challenging as 2011 in all of our markets. Additionally, in 2012, as Stewart has outlined, we anticipate negative foreign exchange rates and increased pension expense. We firmly believe that we have to continue to focus on our core brands, and new innovation to drive top line revenue, and this means growing Coors Light, Carling, Molson Canadian, and Miller Lite. We also need to execute our innovation program effectively and to help ensure this is achieved, we plan to invest incrementally in marketing this coming year. We will continue to grow our existing international businesses, and move them forward profitably over the next few years. Finally, we will consider prudent, value-enhancing growth opportunities, through M&A.

Now, despite these efforts, we expect the early part of the year to be especially challenging, partly due to higher brewery marketing, and pension costs. Additionally, we will be cycling the release of a \$3.8 million indirect tax reserve in Canada in the first quarter of 2011 and the volume pull forward of the UK price increase, which we estimate pulled in nearly \$3 million from Q1 2012. These factors will put increased pressure on Q1 results. And of course, later this year, we will be cycling lower employee incentive expenses, and the 53rd week sales in Canada and the UK.

By way of regional outlook, in Canada, beyond the focus on Coors Light and Canadian, we have begun full activation of the NHL sponsorship. That drives relevance for our brands with hockey fans, a key consumer group in Canada. Our premium brands were highly successful in 2011 and finished the year with real positive momentum, contributing one-quarter of a share point of growth to our portfolio in the fourth quarter. Specifically, the Rickard's brands benefited from some successful innovative brand launches. We will gain further geographic expansion of the Creemore and Granville Island brands of Six Pints, our new craft and specialty group. Beyond our current offerings, we plan to introduce some exciting new brands and packaging in 2012 which we expect will further strengthen our portfolio and our competitive position in Canada.

In the US, we will unveil our new take on Miller Lite taste at our distributor convention in mid-March. Innovations, such as the aluminum pint and the vortex bottle, have been well received by consumers and will continue to be a focus. We'll unveil the innovative Miller Lite taste flow can along with new programs to drive Miller Lite engagement among our African, American and Latino consumers.

With Coors Light, we'll continue to drive success with super cold activation, along with other packaging innovations such as the aluminum pint. We will also remain focused on multi-cultural programs that reach Hispanic consumers through local market soccer activations and the Coors Light Fanaticos del Frio website.

Miller 64, the relaunch of the MGD64 brand, will be available at retail by the end of this month with bold new packaging and positioning. Tenth and Blake will continue to drive momentum around Blue Moon with seasonals, such as Blue Moon Spiced Amber Ale. We are also looking at extending the Leinenkugel Shandy brand with a version for the fall. And we'll continue to grow Peroni with a strong focus in the on-premise channel.



Additionally, we will leverage our minority equity investments in Terrapin Beer Company and our acquisition of the Crispin Cider Company last week which gives us significant and immediate presence in one of the industry's fastest-growing categories.

In the UK, since our SAP system implementation in the summer 2011, the team was focused on brand building and innovation activities. In 2012, we will be launching a major investment focus and refresh positioning behind Cobra and Carling, plus Carling Chrome and further new Carling brand extensions. We will be on air consistently through spring and summer. And Coors Light will return with heavyweight support to build on last year's double-digit growth. We are well into the first stage of a multi-year re-development program in our UK brewing network in order to improve bottle innovation, flexibility, and performance, including additional brewing capacity for Doom Bar and will enable us to deliver on our brand and innovation agenda. By the middle of this year, we will have new flow [rep] capability up and running and a new energy center and flexible bottling line will be under construction for early 2013 commissioning.

During 2012, Molson Coors International will continue to focus on leveraging the investments made in new markets and infrastructure over the past two years. The primary focus will be to continue to drive double-digit top line growth in the key strategic markets of China, India, Russia, UK, and Spain. Focusing on the key brands of Coors Light, Carling, and Cobra. While we anticipate similar overall investment levels in these businesses in 2012 versus last year, we expect these investments to be somewhat front-loaded this year. Our overriding international goal remains to build this group of businesses quickly, and to reduce our investment per hectoliter so that our international group becomes a significant contributor to total Company profitability by 2015.

Finally, the following are the most recent volume trends for each of our businesses early in 2012. In Canada, our sales-to-retail for the first five weeks of 2012 declined at a high single-digit rate versus 2011. This decline is largely the result of calendar differences related to the 53rd week in 2011. The January volume reporting for fiscal 2011 included the week leading up to New Year's Eve, whilst this week is excluded from our early 2012 fiscal results. On a comparable basis, 2012 first five-week STR volume is down low single-digit versus 2011.

In the US, for the first five weeks, ended February the 4th, STRs declined at a low single-digit rate on a trading day adjusted basis. In the first six weeks of the quarter, our UK STRs decreased at a mid single-digit rate, largely for the same reasons as Canada and in the first five weeks of the quarter, our international STRs have increased at a double-digit rate. As always, please keep in mind that these numbers represent only a portion of the current quarter, and trends could change in the weeks ahead.

So to summarize our discussions today, the fourth quarter for Molson Coors was a positive finish to a challenging year, underlying tax income up more than 42%, earnings per share up 47%, and net sales growth of 12%. For the full year, net sales increased 8%, underlying earnings per share were up nearly 6%, driven by positive pricing, cost reduction initiatives, favorable foreign currency movements, and the additional week in 2011. Despite some challenging market conditions, our focus continues to be on growing our business. Rather than waiting for the market to come to us, we're building on three pillars of our growth strategy which are to grow profitably in our core business, through brands and innovation, to grow in new and emerging markets, and when it meets our strict shareholder criteria, to grow through M&A.

Our primary focus remains on the first of these pillars, as we continue to invest in our key brands and fill our innovation pipeline in core markets. We will increase our investment behind our brands to drive top line growth and take advantage of changing consumer tastes and new market segments as they emerge. Our approach to global organic growth is based on disciplined market development, strong strategic partnerships, and sound investments in our brands. These growth strategies, paired with a disciplined cash use and cost management, will drive profit, cash flow, and long-term value for shareholders.

Now before we start the Q&A portion of the call, a quick comment. Our prepared remarks will be on our website for your reference within a couple of hours. Also, at 2 PM Eastern time today, Dave Dunnewald will host a follow-up conference call which is an opportunity for you to ask additional questions regarding our quarter results. That call will also be available for you to hear by webcast on our website.

So, at this point, Martina, can we open it to questions, please?



QUESTIONS AND ANSWERS

Operator

Certainly. (Operator Instructions)

Your first question comes from the line of Judy Hong from Goldman Sachs. Your line is open.

Judy Hong - Goldman Sachs - Analyst

Thanks. Hi, everyone. First, just in terms of the Canada performance. It sounds like the fourth quarter share was a little bit softer. Any color as to the competitive dynamics? And how you're thinking about your ability to hold on to the pricing in that market? And it sounds like January trend, even excluding the extra-week impact, was also still somewhat softer. So what are you seeing just in terms of the most recent trend there as well?

Peter Swinburn - Molson Coors Brewing Co - President and CEO

I will let Dave do the detail on that, but one thing I would point out, Judy, is that if you look at the total year, then we've certainly seen improvement in Canada in the second half from an industry basis point of view, which we're pleased to see. And also as I called out, we're very pleased with our premium portfolio performance in Canada as well.

Dave, do you want to talk to the specifics?

Dave Perkins - Molson Coors Brewing Co - CEO of Molson Coors Canada

Yes, for sure. Judy, hi, it's Dave. So, yes, what we've seen in Q4 was strong industry performance, up 1.8% when you take out the 53rd week impact. So we've had two quarters in a row that feel good. We've had good weather through those six months, but certainly I think some of the value offerings and innovation that have gone into the market have made a difference. Consumer behavior seems to be changing. I think there is -- folks are loosening up a little bit on their wallet. And so that's playing through well for us.

In terms of the competitive environment, pricing did continue to be very competitive right across the country through Q4. Consumers continue to respond to that activity. December is obviously a pretty important month, and I think with the slow start to the year, with the first half being soft, we did see a spike in activity and pricing activity in December. Not to be unexpected.

We gave up the 0.5 share point that you've referenced. That largely comes from our unsupported brands. Innovation continued to deliver about 3 share points for us in the quarter, which is really good. As Peter referenced, our import performance, which I had called out in Q3, as the softness actually strengthened up for us in Q4, so that was good to see. And if you look at the 10 or 11 brands that we put our focus behind, we grew share or volume on all but two, and we're able to get price increases through as well. So I feel good on that.

Coors Light in Quebec, we gave up a marginal amount of market share because of competitive pricing. But Coors Light grew in the rest of the country. So overall, I think as we continue to play with the price and volume balance, it feels like we have it about right. But no doubt, it's a competitive environment there. And we'll continue to focus on that.

Judy Hong - Goldman Sachs - Analyst

Dave, just following up, the unsupported brands as a portion of your portfolio, can you quantify how big that is? And is that a drag in terms of the share performance going forward? Or just in the fourth quarter, given the competitive activity at the value end that just got hurt more?



Dave Perkins - *Molson Coors Brewing Co - CEO of Molson Coors Canada*

Well, we've seen softness on the unsupported brands, right through the year. They would likely -- I don't have a precise number for you, but I would say probably high-single-digit, or very low-double-digit, as a percent of our portfolio. And so what we try to do with those brands is migrate the drinkers through to the brands that we support over time.

As far as your question on January, I mean January is a small month for us. We are down low-single-digit so far, when you take out the 53rd week impact. It is difficult to establish a real pattern so far. There are some things in the market that feel good to me, in terms of the pricing environment. We'll see how they play out through the rest of the quarter. But in the West, we have seen some selective price increases that seem to be in the right direction. In Quebec, we've seen, not brewer-instigated price changes but retailer price increases, which I think are a positive sign. So, there is some encouraging news there.

Judy Hong - *Goldman Sachs - Analyst*

And then Stewart, just on the free cash flow generation in 2011, just in terms of the miss versus your target, can you elaborate on some of the buckets where that shortfall came from? And then, obviously we'll wait for your March meeting, but just broadly speaking, in 2012, it sounds like maybe you're making additional pension contributions. So your ability to step on the cash flow side, and then the buyback -- obviously the pace seems to have slowed down in the fourth quarter. Is that indicative of maybe cash generation in 2012 potentially being a little bit more subdued than what you previously thought?

Stewart Glendinning - *Molson Coors Brewing Co - CFO*

Well, let me take those, Judy. Thank you. So first, let's take the buyback first. I wouldn't necessarily connect those dots. I will say that we bought back almost \$325 million worth of shares. That was a huge chunk of money back to shareholders. It still left us with some, almost \$900 million in cash, which we think is an appropriate level, and we have said that we'd like to maintain flexibility. That's the reason I wouldn't necessarily connect any other dots. As you say, we will share with you, in a couple of weeks when we're in New York, our guidance for 2012, and we'll be prepared to explain all the details around that.

With respect to the miss, we did call out in the third quarter, as we saw the year turning out a little bit tougher than we expected, that we expect to be at the lower end of the range. That, in fact, was true. That played out. But what also played out were some timing items on working capital, and we expect some of that to come back in the next year. So if you looked at that, just to dimensionalize that, somewhere in the \$40 million to \$50 million range, which explains the difference between the bottom of the range and the number we ended up with.

Judy Hong - *Goldman Sachs - Analyst*

Okay. All right. Thank you.

Operator

Your next question comes from the line of Mark Swartzberg from Stifel Nicolaus. Your line is open.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Hello, everyone. Dave, I wanted to talk a little bit more about Canada. And I was wondering, the comments you just made about feeling a little better about the pricing environment, and you remarked that Quebec, the retailers have started taking some incremental pricing. Can you talk a little bit more about Quebec specifically, and anything else that leads to that comment about the pricing environment?



Dave Perkins - *Molson Coors Brewing Co - CEO of Molson Coors Canada*

In Quebec, what we've seen, Mark, is that almost all the major retailers have moved away from the minimum price, have moved away from that floor, and generally are up about \$1 a case -- a case being a 24 -- from that level. And that has just happened in recent weeks. So we'll see consumer reaction and how that plays out. But that feels good.

And then in Western Canada, it's really selective price increases that we or other brewers have been pursuing that would reflect a strengthening environment there. In Ontario, the next catalyst to any pricing change would be the increase, the index increase to the minimum price. So on an annual basis, the minimum price is increased by, I think, it's a weighted average of the prior three years' CPI. And in Quebec, at the beginning of the second quarter, there is also a CPI adjustment to the minimum price there.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

That's in what month again?

Dave Perkins - *Molson Coors Brewing Co - CEO of Molson Coors Canada*

That would be in April in Quebec, and it's in late March or early April in Ontario.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Great. Okay. And as we think about -- I mean, a month is only a month, but as we think about the portfolio in recent months, if you will, sounds like the share performance has been a little softer than what you would like. You mentioned these unsupported brands. Can you talk a little bit about what you're seeing in the evolution and trends for Coors Light specifically, and Canadian specifically?

Dave Perkins - *Molson Coors Brewing Co - CEO of Molson Coors Canada*

Canadian continues to hold or grow share. So, the brand's performance is strong. It will be receiving pretty significant support behind the NHL property, as we go through into the playoffs this year. So, new piece of news on that brand, which I think will be really positive for it. We weren't able to activate heavily in the tail end of 2011 because of some legal uncertainty that you'd be aware of. And so certainly, as we go into this year, you're going to see strong activation there behind Canadian.

All of the equity tracking that we're doing is very positive, so we're seeing the equity scores on the brand move up at rates that we haven't seen before. Coors Light continues to be a very strongly rated brand in our consumer tracking. As I said in the fourth quarter, it grew or held share everywhere, but Quebec, where there was some pricing challenges that caused a minor erosion of market share. But Coors Light continues to be a strong brand for us.

And there's no question, moving forward, that the thing that is very important for us is the performance of those two brands. There's a number of other things we do in our portfolio around the above-premium brands and Six Pints and so on, but we really have to have that strength from Canadian and Coors Light. They'll both benefit from the NHL exploitation. They will both benefit from innovation going forward. So the plan feels strong. The equity measures look good, and the performance is good, along with NSR increases, which is really important.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

That's great. So it really does sound like that maybe the unexpected to-do item is these unsupported brands, as you head into '12. Is that a fair characterization?



Dave Perkins - *Molson Coors Brewing Co - CEO of Molson Coors Canada*

Yes. Look, the losses are happening on the unsupported brands. The reality is that we need accelerated growth on Canadian and Coors Light to offset those declines. I don't want to try to slow the declines on brands that don't matter to our future. It's how do we feed our major brands with the volume that comes out of those. And as I say, innovation hockey program, and just good solid marketing, and day-to-day sales execution are the things that are going to make the difference for us on that. And so, we push into those brands really hard, and they'll make the difference for us.

We always have the price/volume balance that we can play with. We've been tracking some share loss through 2011 knowingly, and we do believe that our brands need to get NSR growth. And so we'll continue to play with that balance. But I feel pretty good about the balance right now, actually. And I think it's really for our marketing programs to continue to accelerate the performance on Canadian and Coors Light.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

That's great. And if I could finally, on that, and I don't know, Peter, if this is for you, but you've drawn our attention to the importance of marketing dollars, not only in quality, but it sounds like in quantity. And I know you're not going to give us a percentage increase, but could you talk, maybe just directionally about how you're thinking about the absolute level of support in the market of Canada today versus say a year ago, or even a few years ago, given the dynamics that have played out at the consumer and competitive level?

Peter Swinburn - *Molson Coors Brewing Co - President and CEO*

Thanks, Mark. I mean two things. First of all, I try to make it very clear in this script, that we recognize that we've got to grow the top line and [that's] of this business. I think there's probably three areas that we're focused on. One, obviously, is the more dynamic area around casks, and I think we've done a good job, whether we look at the US with Blue Moon or Leinenkugel; as you look at Canada, with Creemore, Granville Island, Rickard's; if you look at the UK with Doom Bar, I think we've really knocked that out of the court to be honest with you. But it's a small part of the overall portfolio.

We talked about adjacencies, or the impact of wines and spirits, and I think we feel really good about the individual ideas that we have to address some of that space. So again, we're pleased at that. But really, the big issue, as Dave has called out is we've got to get our power brands moving forward, and that's Miller Lite, Coors Light, Carling and Canadian. And that's what will make the difference. So we want to put our marketing dollars behind those, as well as innovation.

To give you some scale, it's difficult. It will be a minimum of \$30 million. Really depends on how much we put behind innovation at the top end of the scale. So I think I will leave it at that, if that is okay, if that helps?

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Okay, so you're saying on those brands on a combined basis, an incremental \$30 million versus last year?

Peter Swinburn - *Molson Coors Brewing Co - President and CEO*

Yes. As a minimum.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

At least, as a minimum. Great. And then just more on the modeling side -- that's helpful, and thank you. But over on the modeling side, Stewart, the pension up -- I'm not sure I even got it right, but I think you're saying pension up \$80 million? Is that the right number? And can you just give us the replay there on the amount by region?

Peter Swinburn - *Molson Coors Brewing Co - President and CEO*

Mark, sorry, can I just come back? Because you did reference Canada (inaudible) talking about the total business, okay?

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Across regions, right. And that's on a 42% basis for the US? Or that's excluding the US?

Peter Swinburn - *Molson Coors Brewing Co - President and CEO*

That excludes the US, I'm sorry.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Excluding the US. Got it. Thank you.

Stewart Glendinning - *Molson Coors Brewing Co - CFO*

Mark, let me just make everything clearer. So just to recap, what we said is that the UK will increase \$10 million year-over-year.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Yes.

Stewart Glendinning - *Molson Coors Brewing Co - CFO*

And will move from pension benefits, up \$7 million in 2011, to \$3 million of expense this year, \$10 million year-over-year. In Canada, we expect expense to increase by \$20 million from 2011. And then in the US, we actually expect a decrease of about \$15 million on an underlying basis. So just ignore the \$22 million that we saw come through this year, it was a special charge related to a multi-employer pension plan. So take those three things together, and then you end up with about a \$15 million year-over-year total company.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Okay, that makes a lot more sense. Okay. Great.

Stewart Glendinning - *Molson Coors Brewing Co - CFO*

-- \$80 million is the total expense for the quarter.



Mark Swartzberg - *Stifel Nicolaus - Analyst*

Got it. That makes a lot more sense. Okay, thank you, guys.

Peter Swinburn - *Molson Coors Brewing Co - President and CEO*

Thanks, Mark.

Operator

Your next question comes from the line of John Faucher from JPMorgan. Your line is open.

John Faucher - *JPMorgan - Analyst*

Thank you very much. I just want to follow up on a comment you had made in the prepared remarks, where you talked about 2012 being just as difficult as 2011, and just wanted to get a better handle on -- is that from a market development standpoint? Is that from an overall financial performance standpoint? I wasn't quite sure exactly where you were taking us with that question -- with that comment, sorry.

Peter Swinburn - *Molson Coors Brewing Co - President and CEO*

Okay, thanks, John. And thanks for giving me the opportunity to expand on it. All we're trying to lay out there is that when we look at the external environment, we certainly don't see things getting worse, but we certainly don't see them getting better to any great extent. If I had to put money on either side of that, then probably we expect it to get slightly better. But most importantly, not worse. That means that 2012 externally looks the same to us as 2011.

Within that, however, we will continue to focus on what we think is important. And I'll go back to the comments I just made to Mark about focusing on our core brands, especially the big brands, and putting money behind that to actually generate top line growth. Does that help?

John Faucher - *JPMorgan - Analyst*

It does. And then, I guess the next question would be, and I know you guys don't give guidance, if the markets are about the same from your financial standpoint, I mean we're expecting tax to go up. Do you feel like your financial performance can be similar in 2012 as it was in 2011?

Peter Swinburn - *Molson Coors Brewing Co - President and CEO*

That sounds like guidance to me, John.

John Faucher - *JPMorgan - Analyst*

Okay.

Stewart Glendinning - *Molson Coors Brewing Co - CFO*

John, I would say it is not true we don't give any guidance. Of course, we do give guidance around MG&A, and around our tax rate, around capital spending, around our COGS, some important elements. What we don't give is guidance around our top line.



John Faucher - JPMorgan - Analyst

Okay. Thank you very much.

Peter Swinburn - Molson Coors Brewing Co - President and CEO

Thanks, John.

Operator

Your next question comes from the line of James Watson from HSBC. Your line is open.

James Watson - HSBC - Analyst

Good morning, everyone.

Peter Swinburn - Molson Coors Brewing Co - President and CEO

Hi, James.

Stewart Glendinning - Molson Coors Brewing Co - CFO

Good morning.

James Watson - HSBC - Analyst

I had a quick follow-up on Canada first, just about the competitive environment. I was hoping you could break it down a little more in terms of whether the competition, competitive pricing was more in the value segment, which I might imagine is your unsupported brands, the ones struggling. And I imagine those are skewed toward value as well. So if you could just break it down value versus premium, and maybe smaller competitors versus your main competitor, in terms of the competition?

Dave Perkins - Molson Coors Brewing Co - CEO of Molson Coors Canada

All right, James. On the pricing, it really comes into play at the premium and above-premium level, actually rather than value. Value tends to sit down close to the minimum price anyway. So you will have some movement there. But the majority of the pricing action that we see is in the mainstream and above. And I would say it was across the board when you look at the competitive environment. We do see the smaller regional and national brewers active in this area on an ongoing basis. But certainly, I would say through the fourth quarter and into December, it was fairly broad-based, both regionally and across the industry.

James Watson - HSBC - Analyst

Okay. And are the price gaps between value premium and premium and above-premium staying about the same then?



Dave Perkins - *Molson Coors Brewing Co - CEO of Molson Coors Canada*

There hasn't been any fundamental shift in that. There certainly is -- any time there's a major price promotion going on in a market, you may see above-premium come down, and this isn't just brewer action. It is sometimes retailer action. So for instance, in Quebec in December, the retailers used the above-premium import brands as traffic builders. And so you'll see a fair amount of discounting there. And they'll come down fairly close to the price of our regular brands. And so it varies by region, what you actually see, but generally the price gaps on an ongoing basis are holding up, and we're seeing the action, as I say, in the premium and above-premium.

James Watson - *HSBC - Analyst*

Great. Thank you. And then I just had another question on the UK, also on the pricing environment there. I just noticed that you guys had 6% lower net pricing on your core brands, and at the same time, great volume and share gains there. So I was just wondering, that almost sounds like, just from those stats that you guys are the ones discounting there, in order to gain share. But just if you could give me a little more background on that competitive environment, and anything I might be missing in that quick analysis.

Mark Hunter - *Molson Coors Brewing Co - CEO of Molson Coors UK*

Hi, James. This is Mark Hunter here. I think you have to set a little context here. We've had about 19 quarters of total pricing growth in the UK, when you include mix and unit pricing, 17 quarters of pure unit price growth. As we've come through 2011, through Q2 through to Q4, we've had to be a little bit more competitive in the marketplace. The UK market from a volume perspective remains challenging, and certainly from an off-trade perspective, we've seen the competition increase pretty significantly. So, our strategy is very clear, which is about driving for revenue growth, wherever possible driving for value ahead of volume. And we remain flexible and employ tactics where required. So we're very clear about what we're about as a business, and I think we're responding to the market on a real-time basis.

James Watson - *HSBC - Analyst*

I mean, we've seen a lot of quarterly swings throughout 2011. But just going into 2012, compared to entering 2011, is there a significant shift in where this market is?

Mark Hunter - *Molson Coors Brewing Co - CEO of Molson Coors UK*

I don't think there's a significant shift. If there's one dynamic that has moved, it has been really the softness in the off-trade market, volumes in the off-trade over the last year. So we actually finished last year, where at total industry was down on a full-year basis about 3.5 points, and off-premise was down 3.7 points. On-premise was down 3.4 points. That's the first time for a long time that I can remember the off-premise volumes actually being softer than on-premise. I think it's too early to tell whether that's a sustained trend, but it's certainly interesting and a shift in dynamic.

James Watson - *HSBC - Analyst*

Very helpful. Thank you very much, guys.

Peter Swinburn - *Molson Coors Brewing Co - President and CEO*

If I can just build on that, James, again, just to step back from the minutiae a little bit. If you look at the UK market, it's still roughly 50/50 on-premise, off-premise. We have consistently grown share in the on-premise. That's where your brands are built, and where your brands remain, and they're not susceptible to fluctuations of promotional pricing. In the off-premise, Mark and his team have been very diligent in terms of trying to move pricing up.



But what you've seen is actually just the strength of our brands. When we choose to be competitive in that area, we actually do exceptionally well. And so, we've always got that lever to pull if we choose to pull it. Strategically we're in a very strong position in the UK as to which way we want to go, and I think Mark and his team have done a great job putting us in that position.

James Watson - HSBC - Analyst

Great, thanks.

Operator

(Operator Instructions) Your next question comes from the line of Bryan Spillane from Bank of America. Your line is open.

Bryan Spillane - Bank of America - Analyst

Hi, good morning.

Peter Swinburn - Molson Coors Brewing Co - President and CEO

Hi, Bryan.

Bryan Spillane - Bank of America - Analyst

Just a couple of questions around -- I just want to make sure I captured some of the incremental costs for 2012. So pensions are an incremental \$15 million. The tax rate's going to be higher. And then the corporate MG&A, I think if I took it down right, is \$115 million. Does that compare to -- what number does that compare to for 2011? Is it \$104 million?

Stewart Glendinning - Molson Coors Brewing Co - CFO

Well, so it's going to be \$12 million higher.

Bryan Spillane - Bank of America - Analyst

Okay.

Stewart Glendinning - Molson Coors Brewing Co - CFO

And I guess the only real difference in corporate this year is to point out that there's about \$1 million that's in there that's related to the 53rd week. So that would be the only small thing to point out. You wanted the actual year-over-year comparison is [\$103] million is the number to point to.

Bryan Spillane - Bank of America - Analyst

Okay. And then Resources for Growth were about \$60 million of contribution in 2011, is that right?

Stewart Glendinning - *Molson Coors Brewing Co - CFO*

\$60 million of savings in 2011, and another \$24 million to go in 2012.

Bryan Spillane - *Bank of America - Analyst*

Okay.

Stewart Glendinning - *Molson Coors Brewing Co - CFO*

Based on the current program. Let me be specific about that.

Bryan Spillane - *Bank of America - Analyst*

And so we may hear more about something more incremental on that in March?

Stewart Glendinning - *Molson Coors Brewing Co - CFO*

Well, I'd wait to see how we frame that up in March, but yes, the current program is \$24 million still to go.

Bryan Spillane - *Bank of America - Analyst*

Okay. And then just, I guess in terms of looking at gross profits for next year, or gross margins for next year, do you have all the pricing in place that you need at this point to cover your cost of goods per hectoliter outlook? And also just how volatile could your cost of goods be? How much of your costs are locked in at this point?

Peter Swinburn - *Molson Coors Brewing Co - President and CEO*

Well, I'll let Stewart take what's been locked in. But we've given guidance on our COGS, Bryan, we're not going to give guidance on our top line pricing. We'll let you work through that.

Bryan Spillane - *Bank of America - Analyst*

Okay.

Stewart Glendinning - *Molson Coors Brewing Co - CFO*

The only things I would say is that US has taken pricing at the end of the year, and the UK has also taken some pricing. So we'll have to see how that plays out during the year, but as Peter says, we're not going to give any guidance on what we might do over the course of this year.

With respect to COGS, we don't give real guidance in terms of what specifically is locked. What I will say is that in the marketplace, you are seeing the pressure from some of the brewing materials and continued fuel pressure. That is publicly available data. What is important is that you just reflect on the mix, and how that's impacting our business. So I don't think you see as much volatility in parts of our business, because of our hedging. We will be subjected to the broad inflationary pressures, which we have baked into the COGS numbers that we've given you, and because of the mix differential in our various businesses. So for example, Canada uses a higher percentage of returnable packaging, whereas the US is almost all non-returnable packaging. That's the reason we give you COGS by [BU], to help you model that.



Bryan Spillane - Bank of America - Analyst

Okay. Great. Thank you.

Peter Swinburn - Molson Coors Brewing Co - President and CEO

Thanks, Bryan.

Operator

There are no further questions in the queue. I'll turn the call back over to Mr. Swinburn for closing remarks.

Peter Swinburn - Molson Coors Brewing Co - President and CEO

Thank you, Martina. And thank you, everybody, for your interest in Molson Coors, and for the questions, and we look forward to speaking to all of you in New York in March. Thanks very much, everybody.

Operator

This concludes today's conference call. You may now disconnect.

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